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The Journal of the Book Industry

THE WIDENING WORLD OF TRAVEL BOOKS
DISCOVERING THE WAREHOUSE CLUB MARKET
RELIGIOUS BOOKS

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Warehouse Clubs: An Expanding Market

By Jean Crichton

It's not easy to find BJ's Wholesale Club in East Rutherford, N.J.—at the end of a drab back street in an industrial area near Giants Stadium. The place looks like an airplane hangar, inside and out. But that's no obstacle for hard-core shoppers—those lucky enough to be members, that is.

Flashing their identification cards, they rush into the cavernous sales space with bare cement floors, glaring lights and towers of industrial steel shelving. There is little effort at display: merchandise ranging from food and clothing to appliances, tires and office supplies are sold directly from opened cartons or piled on wooden pallets. Selection, styles and sizes are limited.

BJ's service is strictly no-frills, too. There are no home deliveries and no sales staff. Credit cards are not accepted—only cash and checks—and about the only amenities besides the jumbo-sized shopping carts are a few flatbed dollies to allow shoppers to get large appliances like refrigerators and washing machines to the cash register and then out to the parking lot.

The attraction is the prices, which run about 20%–40% lower than at supermarkets or discount stores. And among the bargains these days are books. *Men Who Hate Women and the Women Who Love Them* (Bantam), list-priced at $16.95, sells for $10.17; Abbeville's *John Singer Sargent*, marked at $85 and remaindered at $39.95, sells for $28.22; Workman's Teddy Bear Calendar ($12.95 list) for $4.91.

On a busy evening just before Christmas, BJ's book department—located farther back than the paper shredders and the Oriental carpets, but in front of the tires and the 12-packs of frozen lamb chops—attracts a swarm of shoppers. The store's selection of 100-plus titles is arranged in face-up piles on a table about 50 feet long with a raised platform in the center. As customers browse, stock clerks drive up periodically in forklifts and unpack shipping cartons.

BJ's book section features *New York Times* hardcover bestsellers at 40% off and paperbacks at 35% off. The weekly lists—clipped out of the paper and mounted in a desk photo frame—stand among the piles of books, though not all the listed titles are necessarily in stock at any one time. Besides bestsellers, there are cookbooks, art books, dictionaries, calendars and children's books, with coloring books and other inexpensive items shrinkwrapped in sets.

"We sell a lot of books, especially in the stores in metropolitan areas," says Mervyn Weich, president of BJ's, a 15-warehouse subsidiary of the Zayre discount store chain, based in Natick, Mass.

In fact, books move well in all the nation's members-only warehouses, according to Charles Tillinghast, president of Advanced Marketing Services, the San Diego distributor that supplies books to many of the major players in this specialized retailing field. Estimating the warehouse club industry's annual book sales at $100 million "would not be an exaggeration," he maintains. (In contrast, Waldenbooks reported sales of over $400 million last year.) "If a title works in the warehouse environment, the numbers get very large—sales might be 75,000 copies of a bestseller."

The decade-old membership warehouse industry presents a promising new opportunity for publishers—and yet another challenge for the traditional bookseller. In this article, *PW* takes a look at the way membership warehouses work, how they sell books, the wholesalers who service them, the publishers who sell to them and the book retailers who compete with them—yet may also be card-carrying members.

The Warehouse Club Concept The largest and best-known company in the membership warehouse business is Price Club, headed by Robert Price and his father, Sol, who originated the mem-

Crichton is a New York–based writer whose Age Care Sourcebook *is due from Simon & Schuster in August.*

Throngs of bargain hunters wheeling oversized carts at BJ's warehouse club outlet in East Rutherford, N.J., find *New York Times* bestsellers stacked between paper shredders and frozen peas

bership warehouse concept in San Diego in 1976. Expanding first in the West—California, Arizona and New Mexico—and more recently to Maryland and Virginia, Price Club now has more than 25 outlets, the most successful of which are said to do an annual sales volume of $150 million each.

After the first successful pioneering efforts, a number of other companies jumped in. Today there are 20-odd companies in the membership warehouse business, including subsidiaries of several established retailers (see box, page 58). Together they have some 200 outlets nationwide and grossed an estimated $8 billion in sales last year, up four times over an estimate 18 months earlier, according to *Discount Store News*, a retail trade magazine. What's more, the clubs are proliferating, with 800–900 operations expected by the mid-1990s.

Each of the clubs has its own merchandising profile, but all of them cultivate an atmosphere that is part retail, part wholesale. The perception of getting a bargain is heightened by the membership restrictions. About half the members are small businesses—mom-and-pop restaurants, offices and stores too small to buy profitably in wholesaler quantities. Business members pay $25–$40 a year to belong, depending on the club, and usually have shopping hours reserved for them.

But consumers can be members, too, if they work for (or are retired from) a branch of the government, a school, bank, hospital, airline or some other designated employer. Members of some trade and credit unions are also eligible, and any member may take guests. Some clubs charge individuals a yearly fee, while other add 5% to all purchases.

The warehouses deal in high-quality, brand-name merchandise, and successful outlets turn over inventory quickly—sometimes in less than a week. As a result, the clubs get the benefit of a "float," since suppliers offer payment terms of up to 60 days. That, combined with membership fees and the low overhead, means the clubs can make money operating on margins as low as 10%.

Books as Club Commodities The warehouse clubs regard books much the same way they do other merchandise: Selection is limited to a few brand-name items on which the value offered is easily perceived, and stock must turn quickly—whether it's books or frozen vegetables. "In a warehouse club," says Tillinghast of AMS, "there'll be one size of frozen peas, and that's it. If it's too large for you, tough luck."

For books, this means titles with an immediate recognition factor: bestsellers, cookbooks, children's books, classics, art and photo books on popular subjects. An average warehouse club location stocks only about 100–200 titles. Hardcover bestsellers typically sell at 40% off, but discounts can run higher. Last fall, for example, one California Price Club sold Stephen King's *It* at $12.69, 45% off the $22.95 list price.

Another important book category is remainders, promotional and bargain books (no used or hurt books are carried); although these books are published as markdowns and are stocked in many stores as discounted books, the clubs tend to offer lower prices than even the discount book chains. A spot check shows that while BJ's in East Rutherford was selling *Sargent* for $28.22, Barnes & Noble in New York City sold it for $39.98; an illustrated *Pinocchio* (from Unicorn Publishing) sold at BJ's for $11.97 vs. $14.41 at Barnes & Noble.

As a further enhancement to "perceived value," the clubs have become known for packaging or shrinkwrapping two or more low-end books together. In some cases, the packages contain a book and a nonbook item—a garnish cookbook with some garnishing tools, for example. A sample of BJ's packages includes: two $6.95 pop-ups from Random House, shrinkwrapped together for $9.82; the two Silver Palate cookbooks ($9.95 list each) at $16.17; an eight-pack of 99¢ coloring books at $5.59; and a pair of Louis L'Amour mass market paperbacks (listing at $2.95 each) marked $3.84.

Shoppers can't count on finding a specific book any more than a particular brand of toaster cover, but that's part of the warehouse experience.

Buying for the Clubs Advanced Marketing Services was founded in 1982 by Charles Tillinghast and two partners specifically to supply books to Price Club and others in the booming warehouse industry. Today AMS is by far the major supplier to the clubs and sells almost exclusively to them. Estimates of AMS's share of the market vary from 75% to 95%.

Tillinghast's background is in publishing. At one time, he headed CRM, the company that started *Psychology Today*; when CRM was sold, he founded Oaktree Publishing, a small San Diego press. Partner Craig Schafer, now vice-president of merchandising, had introduced books to the original Price Club while working with a periodical distributor in San Diego. Schafer supervises a buying staff of four: Allen Orso, hard-

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The Top Ten Membership Warehouse Clubs

	No. of Outlets	Sales Volume in Millions
Price Club, San Diego, Calif.	24	$1834 (2590, 8/86)
Sam's Wholesale Club (Wal-Mart Stores), Benningsville, Ark.	23	777
Costco, Seattle, Wash.	21	309
Makro, Cincinnati, Ohio	4	300
Pace, Aurora, Colo.	16	275
BJ's Wholesale Clubs (Zayre's) Natick, Mass.	(15)	215
Price Savers, Salt Lake City, Ut.	5	175
Value Club, San Antonio, Tex.	6	125
Warehouse Club, Niles, Ill.	7	(25.9)
SuperSaver, Monroe, La.	9	N/A

Last fiscal year figures reported or estimated by *Discount Store News* in a July 1986 report; figures in parentheses have been updated by *PW*.

cover bestsellers and basic reference; Cynthia Tillinghast (Charles's wife), cooking, travel and regional books; Anne Fontanesi, mass market and promotional books; and Donna Peterson, children's books and video. AMS's third partner, Loren Paulson, is vice-president of operations.

Those familiar with AMS describe the wholesaler as playing a very influential role in the warehouse clubs' book-buying decisions. "The clubs have a person responsible for buying books, but that buyer may be responsible for other categories as well," says Tillinghast, "and as a general rule they're looking to us to provide recommendations."

AMS is almost universally praised for its shrewd buying and its nearly uncanny ability to judge its market accurately. The company's four buyers are responsible for selecting the approximately 200 titles that are stocked at any one time. One reason for AMS's effective buying, observes one publisher who has sold to AMS, is that the buyers are also responsible for selling to accounts.

"They seem to know exactly what will work for each store and how many copies they have to sell per week to justify the floorspace," says Jean Scrocco, head of Unicorn Publishing House in Parsippany, N.J., who has sold several hardcover children's books to AMS. "If you have a good product and they like it, you don't have to wine and dine them or kill yourself to pitch it. They know their accounts very well."

Buys are generally made in high volume on a returnable basis. Substantial mistakes, however, are apparently rare. The company will sometimes test-market risky titles by placing a small order in a few outlets; successes or failures show up quickly in the high inventory turnover environment.

"Their [AMS's] returns were lower in 1986 than in 1985, and yet for most customers '86 was a big returns year," says Michael Pratt, vice-president of trade marketing and sales at Random House. "I think the reason is that they're dealing with many fewer titles. Compared to another book wholesaler that has 5000 or 10,000 titles, they're obviously going to know more."

From Outlet Book Company, AMS "generally buys nonreturnable" in quantities that "on occasion justify a whole print run," according to executive vice-president J. P. Leventhal. In some cases, publishers have also produced books or calendars on an exclusive, nonreturnable basis for the wholesaler.

Over the five years of its existence, AMS has been expanding along with the warehouse club industry. It started with a storage and holding center near its San Diego headquarters, but has since opened four other locations in San Francisco, Dallas, Atlanta and Baltimore. The firm now ships to 45 of the 50 states—all but Maine, Vermont, Wyoming and the Dakotas, Tillinghast says.

Opportunities for Small Presses Most major publishers and a growing number of smaller houses sell to AMS. "We will see anybody who has a product suitable for our marketplace," says Tillinghast. "We may deal with publishers who have only a single title, but we also deal with the Random Houses of the world."

With the small number of titles in stock, the wholesaler buys item by item, rather than taking an entire line. Even so, the orders can be impressive. At Random House, an order of 10,000 to 50,000 of a bestseller is the norm—plus sales of children's books, paperbacks and backlist, says Pratt, who declined to give dollar figures on the business.

Random House's sales reps in San Diego service the AMS account, though Pratt says "our sales management will visit periodically, and when they're in New York they stop in to see us." Orders for likely bestsellers are placed in advance: "If there's a James Michener coming out, they will want that and a lot of it," says Pratt. In iffy cases, "neither they nor we are interested in large risks. Where we usually sell up to six months in advance, we will probably wait closer to pub date and if

it looks better, we may go back to them and they'll order."

Smaller publishers report that their books are given full consideration without in-person sales visits, based on catalogue copy and a sample. "After they've reviewed it and shown it to their accounts," says Scrocco of Unicorn, "they may take it in large quantities."

As a result, the warehouse industry offers a remarkable opportunity for small publishers with the right book, says Jan Nathan, executive of the Publishers Marketing Association, a California cooperative marketing organization with 600 small publisher members. "Out of the 2700 titles we list, maybe 30 a year would be right for that market," Nathan says. "But anyone would love to sell to them, because you really will get paid in 30–60 days, compared to the 120 days you get other places."

But Nathan cautions that the large orders can have a down side. Samples may be under consideration for months, she says, but "if they make a blanket purchase, you've got to be ready to send maybe 45,000 books in a month. Many small publishers don't have the capital to manufacture so many books so fast." And if the books don't sell (one publisher reported a return of 3000 on a 5000-copy buy), a small publisher could be in big financial trouble.

Tight deadlines can also pose problems. "You have to be ready to deliver on time. They may say the books have to be there on Tuesday, December 8, between 11:00 and noon. You'd better be prepared to fulfill for Charlie [Tillinghast]. If you're late, you'd better believe you won't get another chance."

Best Sellers Publishing Co. in Huntington Beach, Calif., which puts out children's books and cookbooks, has worked with AMS for several years. Publisher Dede Napoli praises the wholesaler as "super to work with," but she has had her share of frustration in trying to enter the warehouse market.

Shortly after setting up shop in 1984, she decided to package a Starving Student Survival Kit, using her *Starving Student Cookbook*, a frying pan and some novelty postcards asking Mom and Dad to "send money quick." (She had sold bookstore distribution rights on the book to Warner Books, but retained rights to sell an edition with a different cover into the gift and specialty market.) "We sent 400 kits to AMS, and they called back right away to say they needed at least 600 more in a few days. The trouble was, we were out of stock, so we couldn't do it. It's very tricky. You have to prepare yourself."

Competitors and Customers Some industry observers claim that the warehouse clubs pose little threat to booksellers because warehouse members do not tend to overlap with traditional bookstore customers. This may change, however, especially as competition between the warehouse chains heats up and if membership restrictions are eased.

"If there are enough of these warehouses, I think they definitely will take a bite out of the booksellers' market," says a Price Club member in the book business. "Particularly before Christmas and with bestsellers, you figure that if you can buy two books for the price of one somewhere else, it's worth it."

Ironically, some booksellers have joined the warehouse clubs as business members. One San Francisco area bookseller admitted he'd gone to a local Price Club and bought 15 copies of *A Day in the Life of America* just before Christmas, when booksellers everywhere were bewailing the title's out-of-stock status.

"We don't like to buy from them because they're competing with us, but I couldn't get delivery from our wholesaler," says the bookseller, who asked that his name not be used. "Of course, it's strictly luck. On Monday, the Price Club didn't have the book and didn't expect any, but when I went back the next day, the books were there."

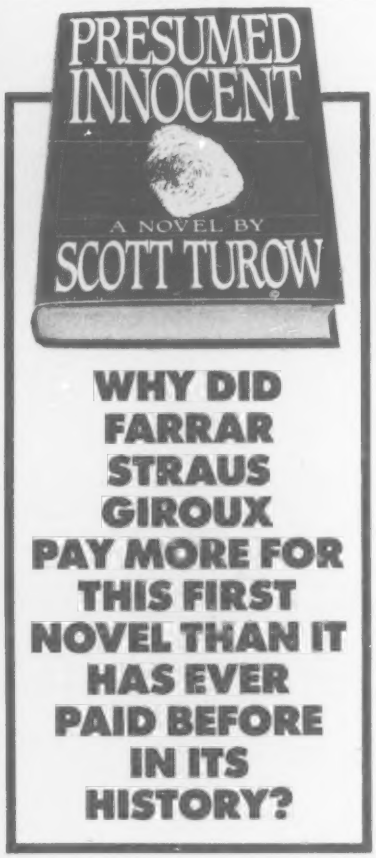
Price Club was selling *A Day in the Life* at a 41.5% discount off the $39.95 list. "You can return anything you don't sell in 30 days, with no penalty, and money back in cash," he points out. By contrast, he would have received a 43% discount from Ingram—if the title had been available—plus shipping.

"When I can't get a book from anyone else, I buy there, but I think it's bad for the independent bookseller. With these Price Clubs, customers get the idea that everything should be discounted"—or that all titles can be discounted that deeply.

A Look Ahead In the 11 years since the first Price Club opened, warehouse clubs have become the fastest-growing segment of the retail industry. Financial analysts attribute much of the rapid growth to the fact that the concept is new and that most stores have entire metropolitan markets to themselves. As clubs multiply and competition becomes more fierce, however, there is speculation that only the largest population centers will be able to support more than one warehouse club.

Competition for the clubs' book business is also increasing. Until recently, AMS has had much of the field to itself, along with a few other distributors. One is Handleman National Book Distributors (Troy, Mich.), which, according to vice-president Richard Sadlon, services Sam's Wholesale Club and the Warehouse Club, and Computer Book Service (owned by Charles Levy Circulating Co., Hillside, Ill.), which, according to sales vice-president Ed Luikaart, services several clubs. But other suppliers are discovering this highly specialized and lucrative market; with their rapid expansion, the clubs represent an area that wholesalers can enter in response to current pressures in the industry, not least of which is the loss of K mart business as Waldenbooks expands its internal distribution network.

Peggy Langstaff, vice-president of marketing and sales at Ingram Book Co., sums up the appeal of the wholesale club market: "We are watching it very carefully. It's a hard market to get into, the pricing is incredibly competitive. But it is appealing because of the volume, returns are negligible, and many of the membership warehouses are very credit-worthy." □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